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Washington, DC 20224

Third Party Communication: None

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Person To Contact:

, ID No.

Telephone Number:

Refer Reply To:

CC:CORP:01

PLR-137707-07

Date:

December 17, 2007

LEGEND:

Parent =

Sub 1 =

Sub 2 =

Sub 3 =

Business A =

Business B =

X =

Y =

Dear :

This letter responds to your representative's letter dated August 14, 2007, requesting rulings as to the Federal income tax consequences of a proposed transaction. Additional information was submitted by letters dated October 26, 2007

and November 29, 2007. The material information submitted for consideration is summarized below.

Parent, a publicly traded corporation, is the common parent of an affiliated group of corporations which has elected to file a consolidated Federal income tax return (the "Parent Group") that includes both life insurance companies and nonlife insurance companies. The Parent Group is engaged in Business A. Sub 1 is a wholly-owned subsidiary of Parent. Sub 1 owns all of the stock of Sub 2 and Sub 3. Sub 1, Sub 2, and Sub 3 qualify as life insurance companies within the meaning of section 801 of the Internal Revenue Code, but are prevented from joining Parent's consolidated return until they have been members of the Parent Group for five years due to the application of section 1504(c)(2). Accordingly, Sub 1, Sub 2, and Sub 3 have elected to file a consolidated return with Sub 1 as the common parent, pursuant to section 1504(c)(1) (the "Sub 1 Group"). The Sub 1 Group's income is reported on the accrual method of accounting and on a calendar year basis.

Sub 1 and Sub 2 are primarily engaged in Business B. Sub 1 and Sub 2 are also engaged in the structured settlement business. In these transactions (each a "structured settlement"), Sub 1 and Sub 2 each (i) assumed "qualified assignments" of personal injury liabilities within the meaning of section 130(c) and (ii) purchased and currently hold annuity contracts that constitute "qualified funding assets" within the meaning of section 130(d). The obligations under the qualified assignments are recourse liabilities. In most instances, Sub 1 and Sub 2 purchased annuity contracts from each other. The taxpayer has represented that the structured settlement business consists of approximately \underline{x} % of Sub 1's total business (a number that is less than 10%) and approximately \underline{y} % of Sub 2's total business (a number that is less than 10%).

In an effort to reduce costs and to simplify the Parent Group structure, Sub 2 will merge with and into Sub 1. However, if Sub 2 were to merge into Sub 1 without any further adjustments of the structured settlements, the annuity contracts between Sub 1 and Sub 2 would be terminated by operation of law because the two parties to the contracts would be a single company.

Prior to transferring the structured settlements to another corporation in the Sub 1 Group, Sub 1 and Sub 2 will request consents, releases and novations from the payees under the qualified assignments. Accordingly, the following transaction has been proposed (the "Proposed Transaction"):

- (1) Under a negative consent procedure, Sub 1 and Sub 2 will send a written notice to each current claimant stating that each company's respective qualified assignment obligations will be transferred to Sub 3 unless the claimant objects within 30 days.

- (2) For all claimants, Sub 1 or Sub 2 will transfer to Sub 3 the qualified assignment obligations, the ownership of the related annuity contracts held as qualified funding assets, and cash in the approximate amount of a customary per-contract assignment fee in constructive exchange for additional Sub 3 stock and the assumption of liabilities under such qualified assignments (the "Initial Transfers"). Regulatory approval of the transfers will be obtained where required.
- (3) Sub 2 will merge into Sub 1 (the "Merger"), with Sub 1 surviving. The taxpayer represented that the merger will constitute a tax free reorganization under section 368(a)(1)(A).

As part of the Proposed Transaction, Sub 3 will assume all of the qualified assignment obligations of Sub 1 and Sub 2. However, Sub 1 either as transferor, or on behalf of Sub 2 as successor in interest as a result of the Merger, will continue in all cases to retain liability directly to the claimants under the qualified assignments. In the case of those claimants that did not object to the transfer, a novation of the qualified assignment would result, but Sub 1, either as transferor or on behalf of Sub 2 as the survivor in the Merger, will guarantee that the payment due to the claimants under the qualified assignments will be paid. In the case of claimants who object, there will be no novations of Sub 1's and Sub 2's obligations under the original qualified assignment, and Sub 1, as the survivor in the Merger, will continue to be liable under the terms of the original qualified assignment to the claimants.

Sub 1 expects that the Proposed Transaction will address the obligations to all current claimants with respect to their qualified assignment obligations. However, it is possible that errors in the notice procedure might occur and that a small number of claimants might make valid objections after the Merger. If such valid objections are made, as to the post-Merger objectors, any novations would be void *ab initio*. Sub 1 either as transferor or as survivor in the Merger and Sub 3 would remain liable to the claimants under the qualified assignments (the "Subsequent Transfers").

The following representations have been made in connection with the Proposed Transaction:

- (a) No stock or securities will be issued for services rendered to or for the benefit of Sub 3 in connection with the Proposed Transaction, and no stock or securities will be issued for indebtedness of Sub 3 that is not evidenced by a security or for interest on indebtedness of Sub 3 which accrued on or after the beginning of the holding period of Sub 1 or Sub 2 for the debt.
- (b) No stock will be transferred to Sub 3.

- (c) Neither Sub 1 nor Sub 2 has accumulated receivables or made extraordinary payments of payables in anticipation of the Proposed Transaction.
- (d) Sub 3 will report items, if any, that, but for the transfer, would have resulted in income or deduction to Sub 1 or Sub 2 in a period subsequent to the transfer, and such items will constitute income or deductions to Sub 3 when received or paid by it. The proceeds received in collection of the income items will be included as ordinary income in computing the taxable income of Sub 3.
- (e) The transfer of assets to Sub 3 is not the result of the solicitation by a promoter, broker, or investment house.
- (f) Neither Sub 1 nor Sub 2 will retain any rights in the property transferred to Sub 3 in connection with the Proposed Transaction.
- (g) The increase in the value of the Sub 3 stock owned by either Sub 1 or Sub 2 as a result of any transfer of accounts receivable, if any, will be equal to the net value of the accounts transferred, i.e., the face amount of the accounts receivable previously included in income less the amount of the reserve for bad debts.
- (h) The adjusted basis of the assets to be transferred by Sub 1 and Sub 2 to Sub 3 will be equal to or exceed the sum of the liabilities to be assumed by Sub 3 (within the meaning of section 357(d)). For purposes of determining whether the adjusted basis of the transferred assets equals or exceeds the sum of the liabilities assumed by Sub 3, liabilities described in section 357(c)(3) are not taken into account.
- (i) The fair market value of the assets to be transferred by Sub 1 and Sub 2 to Sub 3 will exceed the sum of the liabilities to be assumed by Sub 3 (within the meaning of section 357(d)).
- (j) The liabilities of either Sub 1 or Sub 2 to be assumed by Sub 3 (within the meaning of section 357(d)) were incurred in the ordinary course of business and are associated with the assets to be transferred.
- (k) There is no indebtedness between Sub 3 and either Sub 1 or Sub 2, and there will be no indebtedness created in favor of Sub 1 or Sub 2 as a result of the Proposed Transaction.
- (l) The transfers and exchanges pursuant to the Proposed Transaction will occur under a plan agreed upon before the Proposed Transaction in which the rights of the parties are defined.

- (m) All exchanges, other than the Subsequent Transfers, will occur on approximately the same date.
- (n) There is no plan or intention on the part of Sub 3 to redeem or otherwise reacquire any stock constructively issued in the Proposed Transaction.
- (o) Taking into account any issuance of additional shares of Sub 3 stock; any issuance of stock for services; the exercise of any Sub 3 stock rights, warrants, or subscriptions; a public offering of Sub 3 stock; and the sale, exchange, transfer by gift, or other disposition of any of the stock of Sub 3 deemed to be received in the exchange, Sub 1 and Sub 2 will be in “control” of Sub 3 within the meaning of section 368(c) immediately after the exchange.
- (p) Sub 1 and Sub 2 each will constructively receive stock of Sub 3 approximately equal to the fair market value of the net assets transferred to Sub 3 (less any liabilities assumed by Sub 3 within the meaning of section 357(d)).
- (q) Sub 3 will remain in existence and will retain and use the property transferred to it in a trade or business.
- (r) There is no plan or intention by Sub 3 to dispose of the transferred property other than in the normal course of business operations.
- (s) Each of the parties to the transaction will pay its own expenses, if any, incurred in connection with the Proposed Transaction.
- (t) Sub 3 will not be an investment company within the meaning of section 351(e)(1) and section 1.351-1(c)(1)(ii) of the Income Tax Regulations.
- (u) Neither Sub 1 nor Sub 2 is under the jurisdiction of a court in a title 11 or similar case (within the meaning of section 368(a)(3)(A)) and the stock or securities received in the exchange will not be used to satisfy the indebtedness of Sub 1 or Sub 2 .
- (v) Sub 3 will not be a “personal service corporation” within the meaning of section 269A.
- (w) The aggregate fair market value of the assets contributed by Sub 1 and Sub 2 to Sub 3 will exceed such assets’ aggregate bases immediately after the Proposed Transaction.
- (x) The obligations assumed by Sub 1 and Sub 2 from defendants in lawsuits to pay liabilities to personal injury claimants were received by Sub 1 and Sub 2 in qualified assignments under section 130(c).

- (y) The annuity contracts issued by Sub 1 and Sub 2 to fund the obligations of each other pursuant to qualified assignments met the requirements for qualified funding assets under section 130(d) when issued and their terms have not been modified.
- (z) All terms and conditions of the obligations and qualified assignments entered into by Sub 1 and Sub 2 and all annuity contracts issued as qualified funding assets with respect to those obligations and qualified assignments by Sub 1 and Sub 2 will be the same both before and after the Proposed Transaction.
- (aa) Sub 1 on behalf of itself and Sub 2 will guarantee that payments will be made to claimants in accordance with the terms of their qualified assignments as in effect before the Proposed Transaction.

Based solely on the information submitted and the representations set forth above, we hold as follows:

- (1) No gain or loss will be recognized by either Sub 1 or Sub 2 on the transfers of assets to Sub 3 (including the Subsequent Transfers) in constructive exchange for additional shares of Sub 3 stock and Sub 3's assumption of the liabilities associated with the assets. Sections 351(a) and 357(a).
- (2) No gain or loss will be recognized by Sub 3 on the receipt of assets from Sub 1 or Sub 2 in constructive exchange for additional shares of Sub 3 stock. Section 1032(a).
- (3) The basis of each asset received by Sub 3 will be the same as the basis of that asset in the hands of either Sub 1 or Sub 2 immediately prior to the Proposed Transaction. Section 362(a).
- (4) The holding period of each asset received by Sub 3 will include the period during which that asset was held by either Sub 1 or Sub 2 prior to the Proposed Transaction. Section 1223(2).
- (5) The basis of the Sub 3 stock in the hands of Sub 1 or Sub 2 will be increased by an amount equal to the sum of the bases of the assets transferred to Sub 3, decreased by the sum of liabilities assumed by Sub 3. Sections 358(a) and (d).
- (6) The holding period of the Sub 3 stock constructively received by Sub 1 and Sub 2 will include the period during which Sub 1 or Sub 2 held the transferred assets, provided that the transferred assets were held by Sub 1 or Sub 2 as capital assets on the date of the transfers. Section 1223(1).

- (7) Assuming that the rules of section 130 were satisfied at the time the qualified assignments were entered into and further assuming that the Proposed Transaction does not affect the application of section 130 (as set forth in section 130(d), but without regard to whether there is a qualified assignment), the status of the contracts as annuity contracts under sections 72(s) and 72(u) will not be affected by the Proposed Transaction.
- (8) Assuming that the rules of section 130 were satisfied at the time the qualified assignments were entered into and further assuming that the Proposed Transaction does not affect the application of section 130 (as set forth in section 130(d), but without regard to whether there is a qualified assignment), the Proposed Transaction will not cause distributions under the contracts to be subject to the penalty on premature distributions under section 72(q).

The rulings contained in this letter are based on facts and representations submitted by the taxpayer and accompanied by a penalty of perjury statement executed by an appropriate party. This office has not verified any of the materials submitted in support of the request for rulings. Verification of the information, representations, and other data may be required as part of the audit process.

We express no opinion about the tax treatment of the transactions described above under other provisions of the Internal Revenue Code or Income Tax Regulations, or the tax treatment of any conditions existing at the time of, or effects resulting from, the transactions described above that are not specifically covered by the above rulings.

This ruling letter is directed only to the taxpayer requesting it. Section 6110(k)(3) provides that it may not be used or cited as precedent.

A copy of this letter must be attached to any income tax return to which it is relevant. Alternatively, any taxpayer filing its return electronically may satisfy this requirement by attaching a statement to the return that provides the date and control number of this letter ruling.

In accordance with the power of attorney on file in this office, a copy of this ruling letter will be sent to your authorized representative.

Sincerely,

Mark J. Weiss
Assistant to the Chief, Branch 1
Office of Associate Chief Counsel (Corporate)

cc: